

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
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R 151733Z MAR 78
FM AMEMBASSY ROME
TO SECSTATE WASHDC 1335
INFO AMEMBASSY BRUSSELS
AMCONSUL FLORENCE
AMCONSUL GENOA
AMCONSUL MILAN
AMCONSUL NAPLES
AMCONSUL PALERMO
AMCONSUL TRIESTE
AMCONSUL TURIN

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USEEC

E.O. 11652: N/A
TAGS:ENRG, IT
SUBJECT: CLOSURE OF GAETA OIL REFINERY

REF: ROME 4458

1. ECONOMIC AND FINANCIAL DAILIES IL FIORINO (ROME) AND 24 ORE
(MILAN) REPORTED MARCH 10 THAT THE MONTI GROUP WILL CLOSE ITS
3.9 MILLION METRIC TON CRUDE OIL REFINERY AT GAETA, IN THE LAZIO
PROVINCE SOUTH OF ROME. ACCORDING TO PRESS REPORTS, THE REFINERY WILL
CEASE OPERATIONS AND ALL 700 EMPLOYEES WILL BE RELEASED BY THE END OF
MARCH. THE MONTI GROUP (AN ITALIAN CONGLOMERATE CONTROLLED BY
ATTILIO MONTI) IS CURRENTLY EXPLORING WAYS IN WHICH TO CONSOLIDATE
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ITS REFINERY OPERATIONS BY SELLING OFF INEFFICIENT PLANTS OR, PERHAPS,
EVEN ITS ENTIRE REFINERY OPERATION. HOWEVER, IN A COUNTRY IN WHICH
REFINERY EXCESSCAPACITY IS THE HIGHZOT IN EUROPE,
TQRE ARE NO TAKERS WITH THE POSSIBLE EXCEPTION OF ENI (THE
STATE CONTROLLED HYDROCARBONS COMPANY).

2. COMMENT. ANNOUNCEMENT OF THE REFINERY CLOSURE BY MONTI SEEMS TO BE TIMED TO FORCE THE GOVERNMENT'S HAND IN ITS ANNOUNCED GOAL TO INCREASE STATE PRESENCE IN THE ITALIAN REFINERY SECTOR. CIPE (THE INTERMINISTERIAL COMMITTEE FOR ECONOMIC PLANNING) RECENTLY APPROVED A DIRECTIVE THAT AUTHORIZES ENI TO INCREASE ITS SHARE OF THE TOTAL DOMESTIC REFINING CAPACITY TO 40 PERCENT OR MORE. ENI ARGUED AGAINST INSERTION OF THIS DIRECTIVE SINCE IT ALREADY HAS CONSIDERABLE EXCESS CAPACITY. ITALIAN REFINERIES ARE CURRENTLY OPERATING AT 49 PERCENT CAPACITY-THE LOWEST IN WESTERN EUROPE. IN FACT, THE CIPE DIRECTIVE ALSO INCLUDES PROVISIONS WHICH RECOMMEND THE RATIONALIZATION OF REFINERY OPERATIONS IN ITALY THROUGH INTER ALIA THE CLOSING DOWN OF INEFFICIENT OR OBSOLETE REFINERY PLANTS (SEE REFTEL). HOWEVER, VARIOUS SOURCES HAVE INDICATED THAT ENI'S AUTHORIZED SHARE WAS INCREASED TO ACCOMMODATE MONTI'S DESIRE TO DIVEST HIS REFINERY OPERATIONS (MONTI IS A TRADITIONALLY LARGE CONTRIBUTOR TO THE DEMOCRATIC CHRISTIAN PARTY).

3. ALTHOUGH THE CIPE DIRECTIVES DO NOT CARRY THE FORCE OF LAW AND SERVE MERELY AS GUIDELINES, THE GOVERNMENT MAY PRESS FOR AN ENI PURCHASE AND OPERATION OF GAETA TO AVOID OTHERWISE SEVERE ECONOMIC REPERCUSSIONS IN THE AREA BROUGHT ABOUT BY THE CLOSURE. ENI HAS SO FAR RESISTED THESE PRESSURES, ARGUING THAT THE GAETA REFINERY IS OBSOLETE AND SHOULD BE SHUT DOWN CONSISTENT WITH THE CIPE GUIDELINES FOR REFINERY LIMITED OFFICIAL USE

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OPERATIONS. EMBASSY SOURCES AT UNIONE PETROLIFERA (THE NATIONAL PETROLEUM ASSOCIATION) CONFIRMED ENI'S ASSESSMENT, STATING THAT THE 20 YEAR OLD PLANT IS INEFFICIENT, NOT AUTOMATED AND DOES NOT HAVE MODERN PROCESSING EQUIPMENT. ACCORDING TO UNIONE PETROLIFERA, THE REFINERY IS NOT COMPETITIVE WITHOUT SUBSTANTIAL NEW INVESTMENT FOR EQUIPMENT AND MODERNIZATION.

4. IN ARGUING FOR AN ENI PURCHASE, MONTI POINTS OUT THAT A PIPELINE CONNECTION BETWEEN GAETA AND POMEZIA (NEAR ROME) MAKES GAETA A LOGICAL PURCHASE FOR ENI SINCE ENI CURRENTLY REFINES CRUDE IN SARDINIA AND SHIPS FINISHED PRODUCTS BY TANKER TO SERVE THE ROME MARKET. ENI COUNTERS BY SAYING IT WOULD BE DIFFICULT TO CLOSE OR CUT BACK ON ITS SARDINIAN REFINERY OPERATIONS WITHOUT CAUSING ECONOMIC PROBLEMS SIMILAR TO THOSE FOUND IN GAETA.

5. GIVEN LOCAL OPPOSITION TO THE REFINERY CLOSURE AND ENI'S APPARENT RELUCTANCE TOWARDS PURCHASE, THE GOVERNMENT MAY BE FORCED TO TAKE NECESSARY STEPS TO EITHER (A) KEEP THE PLANT OPEN THROUGH FINANCIAL INCENTIVES TO MONTI OR ENI: OR (B) PERMIT CLOSING OF THE PLANT WHILE MITIGATING THE ECONOMIC REPERCUSSIONS IN THE SURROUNDING

AREA. IT IS NOT CLEAR AT THIS TIME IN WHICH WAY THE GOVERNMENT
INTENDS TO PROCEED.GARDNER

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